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DEPARTMENT PASS USTR FOR WILLIAM JACKSON

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SUBJECT: ONE EXPERT SEES MORE CHINESE INVESTMENT "IN THE
PIPELINE" TO SOUTH AFRICA

Classified By: Economic Counselor Perry Ball, reasons 1.4 (b) and (d)

¶1. (C) Summary: Chinese investors are reportedly preparing to make large equity investments in South African companies in the mining, telecom, civil construction, and other sectors. The target companies have operations across Africa and could help Chinese companies tap African markets outside of South Africa. Local business groups and labor unions are opposed to a free trade agreement with China. The South African Department of Trade and Industry has no strategy for engaging China on trade and economic issues. End Summary

Deals in the Pipeline

¶2. (C) The profile of Chinese investment in South Africa could change dramatically if pending business deals are consummated, according to Martyn Davies, the executive director of the Centre for Chinese Studies at Stellenbosch University. Davies met recently with Deputy Economic Counselor in Stellenbosch. (Note: Apart from his duties at the Centre, Davies serves as a consultant to the South African Department of Foreign Affairs and is the CEO of market-research firm Frontier Advisory. End Note.)

¶3. (C) Davies claimed that numerous Chinese deals are "coming through the pipeline" in the wake of the purchase by the Industrial and Commercial Bank of China (ICBC) of a 20 percent stake in local banking giant Standard Bank in 2007. He said that Chinese investors are poised to make "large equity purchases" in South African firms working in the mining, telecom, civil construction, and other sectors. In almost all cases, the target companies have a "large African footprint," Davies said. He noted that many of the pending deals are "spin offs" of the \$5.5 billion ICBC/Standard Bank transaction. (Note: Davies presumably meant that Standard Bank is facilitating the acquisitions. The ICBC/Standard Bank deal was touted as a means for Chinese firms to tap African markets via Standard Bank and its network of branches in almost 20 African countries. End Note.)

¶4. (C) Davies estimated that the current value of Chinese investment in South Africa is about \$6 billion, almost all of it shares in Standard Bank. "Before ICBC bought into Standard," he said, "the Chinese owned some chrome mines in Limpopo and a few retail operations, but that was it. Their total investment was about \$400 million." He implied that the pending Chinese deals are large in size but he offered no details. (Note: South African Reserve Bank (SARB) data indicate that the stock of Chinese FDI in South Africa prior to the Standard Bank deal was less than \$100 million. However, SARB's technical definition of "FDI" does not always track everyday usage and can identify a firm's nationality in counter-intuitive ways. Suffice it to say that Chinese FDI before Standard Bank was relatively small. End Note.)

No FTA

15. (C) Despite the Chinese interest in South Africa, Davies was adamant that free trade talks between South Africa and China "will not happen" in the foreseeable future. He explained that then-Minister of Trade and Industry Alec Erwin had proposed an FTA with China earlier this decade, only to see the idea shot down decisively by opposition from the business community and the powerful COSATU trade union federation. Davies saw no chance of it being resurrected anytime soon. (Note: The idea of an FTA with China is a Qanytime soon. (Note: The idea of an FTA with China is a staple of think-tank and media commentary in South Africa. It seems to have no basis in political reality. End Note.)

16. (C) In a separate meeting, Professor Mills Soko of the University of Cape Town business school told Deputy Economic Counselor that South Africa has no strategy for engaging China on economic and trade issues. Soko, who consults with the Department of Trade and Industry (DTI), said DTI has "no clear thinking on China. Everything is done ad hoc. DTI meets and debates China but it never comes up with a strategy." For example, he said DTI would like to use South African minerals exports as a lever to open the Chinese market, but it has no idea about how to do this in practice. Soko confirmed that Business Unity South Africa (the main big business group in South Africa) killed the proposal for an FTA with China. "They were too worried about Chinese competition," he said.

Comment

17. (C) While few Chinese firms seem interested in setting up production in South Africa, they do see local companies as potential partners in tapping other African markets. Post would not be surprised to see further acquisitions of local companies along the lines of the ICBC/Standard Bank deal.

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